

PAY RATE AND SERVICE CREDIT TABLE OF CONTENTS

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The information provided in this publication is for your convenience and reference as a general guide only and cannot be relied upon as an authoritative source for the law, practices, or policies of CalPERS. While CalPERS tries to include only accurate, timely and complete information in its publications, summaries, guidelines and other advisory printed materials, sometimes information provided in printed materials may be or become inaccurate, untimely, incomplete, unclear or misleading. In all instances, the law then in effect, not this publication, controls the application of the Public Employees' Retirement Law. It is the reader's responsibility to independently verify the accuracy of the information contained in this publication before engaging in a course of action.

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REPORTABLE/NON-REPORTABLE COMPENSATION

Pay rate and special compensation must be in written pay schedules, memorandums of understanding, bargaining agreements, or similar documents that shall be available for public scrutiny. Guidelines defining compensation, compensation earnable, pay rate, and special compensation are listed in the California Public Employees' Retirement Law (PERL) in G.C. sections 20630, 20636, and the California Code of Regulations 570.5.

COMPENSATION (G.C. SECTION 20630)

Compensation is broadly defined as payment to employees for services performed during normal working hours or for time during which the employee is excused from work because of holidays, sick leave, industrial disability leave (payments under Labor Code Sections 4800 and 4850), vacation, compensatory time off, or leave of absence. The employer shall identify and report compensation for the pay period in which the compensation was "earned" regardless of when paid, and shall not exceed compensation earnable.

PUBLICLY AVAILABLE PAY SCHEDULE (CCR 570.5)

This regulation requires that each pay schedule include:

- Position title for every employee position
- Pay rate for each position
- Time base for each pay rate

This regulation also contains criteria for ensuring the pay schedule is publicly available and does not permit a reference to another document in lieu of disclosing the pay rate. Further, the regulation clarifies that "compensation earnable" will be limited to the amount listed on a pay schedule that meets all of the established criteria, and identifies how pay rate may be determined where employers fail to meet the requirements.

WORKERS' COMPENSATION TEMPORARY DISABILITY AND INDUSTRIAL DISABILITY LEAVE PAYMENTS

G.C. section 20630 of the PERL defines "compensation" as "...the remuneration paid out of funds controlled by the employer in payment for the member's services performed during

normal working hours or for time during which the member is excused from work because of: holidays, sick leave, industrial disability leave, during which, benefits are payable pursuant to Sections 4800 and 4850 of the Labor Code or Article 4 (commencing with Section 19869 of Chapter 2.5 of part 2.6; or Education Code Section 44043, 87042) vacation, compensatory time off, or leave of absence..."

Labor Code Section 4850 contains industrial disability leave provisions for various specified safety members of CalPERS. This pay is reportable to CalPERS.

Workers' Compensation Temporary Disability payments in lieu of Workers' Compensation that are not pursuant to the above mentioned law codes are not reportable to CalPERS. However, if a miscellaneous member uses accrued leave credits such as vacation, sick leave, or compensated time off (CTO) the compensation attributable to the used leave credits is reportable to CalPERS.

COMPENSATION EARNABLE (G.C. SECTION 20636 (g) (1))

Compensation earnable for state members means the average monthly compensation, as determined by the board, upon the basis of the average time put in by members in the same group or class of employment and at the same rate of pay, and is composed of the pay rate and special compensation of the member.

PAY RATE (G.C. SECTION 20636 (g) (2))

Pay rate for state members means the average monthly remuneration paid in cash out of funds paid by the employer to similarly situated members of the same group or class of employment, in payment for the member's services or for time during which the member is excused from work because of holidays, sick leave, vacation, compensating time off, or leave of absence.

GROUP OR CLASS OF EMPLOYMENT (G.C. SECTION 20636 (e) (1))

Group or class of employment means a number of employees considered together because they share job similarities, work location, collective

bargaining unit, or other logical work related grouping.

SPECIAL COMPENSATION

(G.C. SECTION 20636 (g) (3))

The following list identifies special compensation items included for state members:

- The monetary value of living quarters, board, lodging, fuel, laundry, and other advantages of any nature furnished to a member by his or her employer in payment for the member's services.
- Compensation for performing normally required duties, such as holiday pay, bonuses, educational incentive pay, maintenance and noncash payments, out-of-class pay, marksmanship pay, hazard pay, motorcycle pay, paramedic pay, emergency medical technician pay, Peace Officer Standards and Training (POST) certificate pay, and split shift differential.
- Compensation for uniforms in certain circumstances.
- Other payments the board may determine to be within special compensation.

Pay rate and special compensation do not include:

- Provisions of a medical or hospital service or care plan or insurance plan, contributions to meet the premium or charge for that plan, or a payment into a private fund to provide health and welfare benefits.
- Payments of the employee portion of taxes imposed by the Federal Insurance Contribution Act.
- Payments for the purchase of annuity contracts.
- Payments credited as employee contributions.
- Payments credited to deferred compensation plans.
- Payments for unused vacation, annual leave, personal leave, sick leave, or compensated time off.
- Final settlement pay.
- Payments for overtime, including pay in lieu of vacation or holiday.
- Compensation for additional services outside regular duties, such as standby pay, callback pay, court duty, allowance for automobiles, and bonuses for duties performed after the member's regular work shift.
- Payments applied for the purchase of a retirement plan or money purchase pension plan.

- Payments to be covered by a flexible benefits program, where those payments reflect amounts that exceed the salary.
- Other payments the board may determine are not pay rate or special compensation.

COMPENSATION LIMITS

(IRC SECTION 401(A) (17))

Section 401(a) (17) of the Internal Revenue Code provides dollar limitations on annual compensation that can be taken into account under qualified retirement plans. Below is a list of the procedures for reporting a member who has reached the limit. CalPERS notifies all employers of the new limits each year in January by sending a Circular Letter, and myCalPERS will automatically track the earnings limit.

The compensation limit is only applicable to persons who first became members or participants of California Public Employees' Retirement System (CalPERS) on or after July 1, 1996.

For those members who are subject to the limit, their final compensation will be capped at the limit in effect for each 12 consecutive-month period that is used to calculate their allowance if they were to retire. The determination of compensation for each 12 month period shall be subject to the annual compensation in effect for the calendar year in which the 12 month period begins.

For example, the compensation limit for 2010 is \$245,000. Therefore, the member should not make contributions on earnings that exceed the \$245,000 limit within the 2010 calendar year. The earnings that are mentioned are those earnings that are reportable to CalPERS, which exclude earnings for overtime, automobile allowances, lump sum payouts, etc. The compensation limit does not limit the salary an employer can pay an employee who is a member of CalPERS.

If an employee's compensation reaches the limit, payroll will error out in the myCalPERS system, prompting the employer to not report employee contributions.

Your agency will continue reporting pay rate, and member earnings, but no member contributions for the service periods that remain

in the calendar year. Reporting the earnings allows the employee to continue earning service credit without making contributions on earnings that exceed the limit. While the law limits employee contributions, employer contributions will still be paid on all earnings that are reported. If an employee's pay rate increases after the time you cease reporting contributions, please report the higher pay rate and earnings on your payroll transaction in case legislation were to change the original limits established for the year.

Once the calendar year is over, the system will prompt you to report contributions for the employee and begin the monitoring for the new calendar year.

LEGISLATIVE OR JUDICIAL BRANCH EMPLOYEES

Contact CalPERS directly at **888 CalPERS** (or **888-225-7377**) for questions regarding compensation for exempt, Legislative, or Judicial employees.

SERVICE CREDIT

Pay rate indicates the amount of compensation a member is paid for a unit of time (e.g., hour, day or month). The pay rate should remain stable throughout a fiscal year except for pay raises, changes of position, etc. If a member works in more than one position, receives a raise in the middle of a pay period, or has a variable pay rate, report amounts earned under each pay rate separately.

- An **hourly** pay rate is that rate of compensation to which an employee is entitled under an employment agreement which provides for compensation for each hour of regular time worked by the employee.
- A **daily** pay rate for both a full-time and a part-time employee is that amount of compensation to which a full-time employee is entitled when the employee's services are performed under an employment agreement which provides for a daily rate of compensation.
- A **monthly** pay rate for both a full-time and a part-time employee is that amount of compensation to which a full-time employee is

entitled, when the employee's services are performed under an employment agreement which provides for a monthly rate of compensation.

IMPACT ON FINAL BENEFITS

Reporting correct pay rates for your active employees is essential in calculating correct member benefits at retirement. The three critical elements used in calculating retirement benefits are:

- service credit
- benefit factor
- final compensation

Service credit and final compensation are directly related to the pay rate and earnings reported for the member. Service credit is derived from the pay rate and earnings reported as illustrated below.

EARNINGS DIVIDED BY PAY RATE EQUALS SERVICE CREDIT

Example	1.	<u>Member Earnings</u> Monthly Pay Rate	=	<u>\$1,200.00</u> \$1,200.00	=	0.100 years of service credit
	2.	<u>Member Earnings</u> Monthly Pay Rate	=	<u>\$600.00</u> \$1,200.00	=	0.050 years of service credit
	3.	<u>Member Earnings</u> Hourly Pay Rate	=	<u>\$600.00</u> \$7.50	=	80 hours equates to 0.0465 years of service credit
	4.	<u>Member Earnings</u> Daily Pay Rate	=	<u>\$600.00</u> \$30.00	=	20 days equates to 0.093 years of service credit

NOTE:

Always use the pay rate featured on a publicly available pay schedule. The pay rate should not change except when a pay raise or demotion occurs.

**FULL-TIME SERVICE CREDIT
(G.C. SECTION 20962)**

One year of service credit shall be granted for service rendered and compensated in a fiscal year in full-time employment for any of the following:

- a. One academic year of service for persons employed on an academic year basis by the University of California, the California State University system, or school employees who are certificated members, under terms and conditions prescribed by the board.
- b. Ten (10) months of service for persons employed on a monthly basis.
- c. Two hundred fifteen (215) days of service after June 30, 1951, and 250 days prior to July 1, 1951, for persons employed on a daily basis.
- d. One thousand seven hundred twenty (1,720) hours of service after June 30, 1951, and 2,000 hours prior to July 1, 1951, for persons employed on an hourly basis.

- e. Nine months of service for state employees represented by State Bargaining Unit 3 and subject to the 9-12 pay plan or leave plan, provided a memorandum of understanding has been agreed to by the state employer and the recognized employee organization to become subject to this subdivision. A fractional year of credit shall be given for service rendered in a fiscal year in full-time employment for less than the time prescribed in this section.

Partial credit will be given for those working less than the full-time markers described previously (10 months, 215 days, and 1,720 hours). Service credited in hours, days, or months is converted to a percentage of a year at the end of each fiscal year. Service credit for each fiscal year is combined to arrive at total service credit.

MAXIMUM SERVICE CREDIT AMOUNT

As one of the major factors used in the retirement calculation, service credit is checked carefully for each payroll entry. CalPERS limits the amount of service credit for each entry to full-time. Credit for more than one year of service shall not be allowed for service rendered in any fiscal year.